JEFFERSON, URIAN, DOANE & STERNER, P.A.

INDIAN RIVER SCHOOL DISTRICT

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

JUNE 30, 2007

FIELDWORK END DATE: APRIL 24, 2008

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Independent Accountant's Report on Applying Agreed-Upon Procedures

Dr. Susan S. Bunting Superintendent Indian River School District 31 Hosier Street Selbyville, Delaware 19975 The Honorable Valerie A. Woodruff Secretary, Department of Education Townsend Building, Suite 2 401 Federal Street Dover, Delaware 19901

We have performed the procedures enumerated below, which were agreed to by Indian River School District; the Office of Auditor of Accounts; and the State of Delaware Department of Education, solely to assist the specified parties in evaluating the School District's compliance with criteria from the State of Delaware Fixed Asset Policy Manual, the State of Delaware Department of Education School Construction Technical Assistance Manual, the Delaware Code, and the State of Delaware Budget and Accounting Manual relative to the school construction projects administered by the School District for the year ended June 30, 2007. Indian River School District's management is responsible for compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* (2003) issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

- 1. Determine if the School District's policies and procedures for identifying, tracking, and recording capital assets are adequate.
 - Upon completion of Indian River School District's construction program and project checklists, our procedures resulted in finding(s), see *Appendix A*.
- 2. Determine whether the School District's construction project records and files (current and prior fiscal years) are accurate.

Upon completion of Indian River School District's construction program and project checklists, our procedures resulted in finding(s), see *Appendix A*.

3. Determine if expenditures are accurately stated and are made in accordance with the State Fixed Asset Policy Manual and the intent of the project scope mandated by the General Assembly, the Department of Education, and the Local Board of Education.

Upon completion of Indian River School District's construction program and project checklists, our procedures resulted in finding(s), see *Appendix A*.

4. Determine whether the School District's construction project records and files include only active construction projects as of June 30, 2007. Ensure that completed projects have been appropriately closed out of construction and added to the State Fixed Asset system.

There were no findings upon completion of Indian River School District's construction program and project checklists.

5. Prepare the School District's Schedule of Construction Projects for Fiscal Year 2007.

See Appendix C.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Indian River School District management and Board Members, the Office of Auditor of Accounts, and the State of Delaware Department of Education, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited. This report, as required by statute, was provided to the Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget, Department of Finance, the State Treasurer's Office, and the Office of Auditor of Accounts.

Jefferson, Urian, Doane & Sterner, P.A.

Georgetown, Delaware April 24, 2008

APPENDIX A

Procedure Agreed Upon #1:

Finding 07-01:

During completion of Indian River School District's construction program and project checklists and as noted in prior year Finding 06-01, the School District did not have written policies and procedures in accordance with the State of Delaware's Fixed Asset Accounting Policy Manual II.B. and II.C. The Manual requires each State organization to establish written procedures and controls necessary to implement and monitor prescribed fixed asset accounting and reporting policies, guidelines, and standards. School District personnel were unaware of this requirement. Indian River School District could potentially be exposed to fraud, misuse of appropriated funds, and improper capitalization of construction work-in-progress and completed projects when adequate policies and procedures are not in place.

Recommendation:

Indian River School District should establish written procedures to ensure that the State's fixed assets are properly monitored, identified, and recorded.

School District's Response:

"The Indian River School District will adhere with the policies and procedures promulgated within the statutory regulations, policy manuals and procedural manuals as well as develop written procedures to ensure compliance with the State's Fixed Asset Accounting Policy Manual."

Procedure Agreed Upon #2:

Finding 07-02:

During completion of Indian River School District's construction program and project checklist for Education Complex renovations, it was noted that the approval of construction plans, specifications, and cost estimates from the Division of Facilities Management was not obtained prior to bid advertisements as required by 29 Del. C. §7419(a). This was an oversight by School District personnel. Noncompliance with provisions of the Delaware Code could potentially cause a delay in receiving future State funding.

Recommendation:

Indian River School District should establish procedures to ensure that proper approvals from the Division of Facilities Management are obtained in accordance with the guidelines established by the State of Delaware.

APPENDIX A

Finding 07-02:

School District's Response:

"Indian River School District will establish procedures to ensure that proper approvals from the Division of Facilities Management are obtained in accordance with the guidelines established by the State of Delaware."

Finding 07-03:

During completion of Indian River School District's construction program and project checklists for Lord Baltimore Elementary renovations, East Millsboro Elementary renovations and Georgetown Middle School renovations, it was noted that the School District failed to submit the archival-quality copies of architectural and/or engineering drawings to Delaware Public Archives for preservation and safekeeping as required by 29 Del. C. §507(b). This was due to an oversight by School District personnel. Noncompliance with provisions of the Delaware Code could potentially cause a delay in receiving future State funding.

Recommendation:

Indian River School District should submit the archival-quality copies for Lord Baltimore Elementary renovations, East Millsboro Elementary renovations and Georgetown Middle School renovations to Delaware Public Archives as soon as possible.

School District's Response:

"The Indian River School District will adhere with the policies and procedures promulgated with the statutory regulations, policy manuals and procedure manuals. The Indian River School District has communicated this concern numerous times to the respective architects and construction managers thereby requesting the documentation to substantiate compliance with this requirement. The Indian River School District will continue to pursue resolution of this outstanding concern with the project's architect and construction management firm."

Finding 07-04:

During completion of Indian River School District's construction program and project checklists for Lord Baltimore Elementary renovations, East Millsboro Elementary renovations and Georgetown Middle School renovations, it was noted that the School District had not submitted a copy of the electronic AutoCAD files to Department of Education within thirty calendar days after the completion of major renovations as required by the School Construction Technical Assistance Manual, § 2.0, Paragraph 5.4. This was due to an oversight by the School District personnel. Noncompliance with State of Delaware provisions, including the School Construction Technical Assistance Manual, could potentially cause a delay in receiving future State funding.

APPENDIX A

Finding 07-04:

Recommendation:

Indian River School District should submit the AutoCad files for Lord Baltimore Elementary renovations, East Millsboro Elementary renovations and Georgetown Middle School renovations projects to the Department of Education as soon as possible.

School District's Response:

"The Indian River School District will adhere with the policies and procedures promulgated with the statutory regulations, policy manuals and procedure manuals. The Indian River School District has communicated this concern numerous times to the respective architects and construction managers thereby requesting the documentation to substantiate compliance with this requirement. The Indian River School District will continue to pursue resolution of this outstanding concern with the project's architect and construction management firm."

Finding 07-05:

During completion of Indian River School District's construction program and project checklists for Lord Baltimore Elementary renovations and Georgetown Middle School renovations, it was noted that the School District's project construction files did not contain certain information required by the State of Delaware Budget and Accounting Policy Manual XII.D.3.r. School District personnel did not maintain certificates rendered by the Fire Marshall's Office, plumbing inspector and/or electrical inspector. This was an oversight by School District personnel for both projects. Failure to comply with State of Delaware provisions, including Budget and Accounting Policy Manual, could result in fraud, errors, and irregularities.

Recommendation:

Indian River School District should obtain and properly file the certificates rendered by the Fire Marshall's Office, plumbing inspector, and/or electrical inspector for Lord Baltimore Elementary renovations and Georgetown Middle School renovations projects.

School District's Response:

"The Indian River School District will adhere with the policies and procedures promulgated with the statutory regulations, policy manuals and procedure manuals. The Indian River School District has communicated this concern numerous times to the respective architects and construction managers thereby requesting the documentation to substantiate compliance with this requirement. The Indian River School District will continue to pursue resolution of this outstanding concern with the project's architect and construction management firm. The electrical inspection certificates will be retained in the construction files as required by State of Delaware Budget and Accounting Policy Manual. The Plumbing inspections were not required by the town officials; therefore, were not performed by them."

APPENDIX A

Finding 07-06:

During completion of Indian River School District's construction program and project checklist for Lord Baltimore Elementary renovations, it was noted that the School District's project construction files did not contain certain information required by the State of Delaware Budget and Accounting Policy Manual XII.D.6. School District personnel did not maintain copies of special engineering or cost analysis reports. This was an oversight by School District personnel. Failure to comply with State of Delaware provisions, including Budget and Accounting Policy Manual, could result in fraud, errors and irregularities.

Recommendation:

Indian River School District should obtain and properly file copies of special engineering or cost analysis reports from all contractors for Lord Baltimore Elementary renovations.

School District's Response:

"The Indian River School District will adhere with the policies and procedures promulgated with the statutory regulations, policy manuals and procedure manuals. The Indian River School District has communicated this concern numerous times to the respective architects and construction managers thereby requesting the documentation to substantiate compliance with this requirement. The Indian River School District will continue to pursue resolution of this outstanding concern with the project's architect and construction management firm. Specifically, the Indian River School District will request copies of the geotechnical report as only special engineering report for the project."

Procedure Agreed Upon #3:

Finding 07-07:

During completion of Indian River School District's construction program, it was noted that the School District did not properly record Construction Work In Progress (CWIP) for Fund 300 in the State's Fixed Asset Accounting system as required by the Delaware Fixed Asset Accounting Policy Manual, Section IV.B.3. As a result, the School District's 2007 GAAP package value of CWIP was misstated. The School District had believed they complied with the State's policies on capitalization.

Recommendation:

Indian River School District's 2008 GAAP package should reflect the corrections proposed by the Division of Accounting in the "Adjustment to Beginning Balance" column on the "Summary of Construction Work in Progress (CWIP)."

APPENDIX A

Finding 07-07:

School District's Response:

"The Indian River School District will pursue a resolution with the outstanding CWIP Analysis and provide the Delaware Division of Accounting with the respective responses as identified in previous communications."

APPENDIX B

The following schedule summarized the prior year findings and the status of the prior year findings.

Prior Year Finding	Recommendation	Status of Prior Year Finding
05-02 - During completion of Indian River School District's construction program and project checklists for Lord Baltimore renovations, it was noted that approval of the construction project was not obtained from the Architectural Accessibility Board as required by 29 Del. C. §7308(a). Personnel were unable to determine if such approval	Procedures should be established by Indian River School District to ensure that proper approvals from the Architectural Accessibility Board are obtained in accordance with the guidelines established by the State of Delaware.	Implemented.
was requested.		N
05-04 - During completion of Indian River School District's construction program and project checklists for Phillip Showell	Indian River School District should submit the archival-quality copies to Delaware Public Archives and establish procedures to ensure	Not implemented. See Finding 07-03. School District's response 06/30/07:
Elementary renovations, it was noted that the School District failed to submit the archival-quality copies of architectural and/or engineering drawings to Delaware Public Archives for preservation and safekeeping as required by 29 Del. C. §507(b).	the copies are submitted upon completion of all projects.	"The Indian River School District will adhere with the policies and procedures promulgated with the statutory regulations, policy manuals and procedure manuals. The District has communicated this concern numerous times to the respective architects and construction managers thereby requesting the documentation to substantiate compliance with this requirement. The District will continue to pursue resolution of this outstanding concern with the project's architect and construction management firm."

Prior Year Finding	Recommendation	Status of Prior Year Finding
06-02 - During completion of Indian River	Indian River School District should notify the	Implemented.
School District's project checklist for Indian	required State agencies of occupancy of the	
River High School Construction project, it	Indian River High School Construction	
was noted that the School District failed to	project.	
notify the Department of Education, the State		
Budget Director, and the State Auditor upon		
approval of the certificate of occupancy as		
required by the School Construction		
Technical Assistance Manual, §2.0,		
Paragraph 5.3. This was due to an oversight		
by School District personnel. Failure to		
comply with State of Delaware provisions,		
including the School Construction Technical		
Assistance Manual, could result in fraud,		
errors and irregularities.		
06-03 - During completion of Indian River	Indian River School District should submit the	Implemented.
School District's construction program and	archival-quality copies for Sussex Central	
project checklists for Sussex Central High	High School Construction project and Indian	
School Construction project and Indian River	River High School Construction project to	
High School Construction project, it was	Delaware Public Archives as soon as possible.	
noted that the School District failed to submit		
the archival-quality copies of architectural		
and/or engineering drawings to Delaware		
Public Archives for preservation and		
safekeeping as required by		
29 Del. C. §507(b). Noncompliance with		

Prior Year Finding	Recommendation	Status of Prior Year Finding
06-03 - provisions of the Delaware Code		
could potentially cause a delay in receiving		
future State funding.		
06-04 - During completion of Indian River	Indian River School District should submit a	Implemented.
School District's construction program and	copy of the electronic AutoCAD files for	
project checklists for Sussex Central High	Sussex Central High School Construction	
School Construction project and Indian River	project and Indian River High School	
High School Construction project, it was	Construction project as soon as possible to the	
noted that the School District had not	Department of Education.	
submitted a copy of the electronic AutoCAD		
files to the Department of Education within		
thirty calendar days after completion of the		
new school as required by the School		
Construction Technical Assistance Manual,		
Section 2.0, Paragraph 5.4. This was due to		
an oversight by School District personnel.		
Noncompliance with State of Delaware		
provisions, including School Construction		
Technical Assistance Manual, could		
potentially cause a delay in receiving future		
State funding.		

Prior Year Finding	Recommendation	Status of Prior Year Finding
06-05 - During completion of Indian River	Indian River School District should complete	Implemented.
School District's project checklist for the	an encumbrance adjustment for \$ 27,559 to	
Indian River education complex project, it	correct purchase order 951396216.	
was noted that the School District did not		
properly encumber a \$ 764,538 obligation as		
of June 30, 2006. School District personnel		
inadvertently only encumbered \$ 736,979 of		
the obligation, thereby understating the total		
encumbrance by \$ 27,559. Budget and		
Accounting Policy Manual VI.B.1. requires		
that correct amounts be charged at the time of		
issuance of the purchase order.		
06-06 - During completion of Indian River	Indian River School District should properly	Implemented.
School District's project checklist for the	file the certificate of occupancy for Indian	
Indian River High School Construction	River High School Construction project.	
project, it was noted that the School District's		
project construction files did not contain the		
certificate of occupancy required by the State		
of Delaware Budget and Accounting Policy		
Manual, XII.D.3.p. This was due to an		
oversight by School District personnel.		
Failure to comply with State of Delaware		
provisions, including the Budget and		
Accounting Policy Manual, could result in		
fraud, errors and irregularities.		

Prior Year Finding	Recommendation	Status of Prior Year Finding
06-07 - During completion of Indian River	Indian River School District's 2007 GAAP	Implemented.
School District's construction program, it was	package should reflect the \$ 2,013,224	
noted that the School District did not properly	correction in the "Adjustment to Beginning	
record Construction Work In Progress	Balance" column on the "Summary of	
(CWIP) in the State's Fixed Asset	Construction Work in Progress (CWIP)."	
Accounting system as required by the		
Delaware Fixed Asset Accounting Policy		
Manual, Section IV.B.3. The School District		
had believed they complied with the State's		
policies on capitalization. The School		
District's 2006 GAAP package for Fund 300		
should reflect the following: beginning		
balance of \$ 1,815,889, additions of		
\$ 18,175,770, zero deletions, and an ending		
balance of \$ 19,991,659. Fund 300's		
beginning balance was understated by		
\$ 1,131,760, additions were overstated		
\$ 805,468, deletions were overstated		
\$ 1,686,932 and the ending balance was		
understated by \$ 2,013,224 on the GAAP		
package.		

Prior Year Finding	Recommendation	Status of Prior Year Finding
06-08 - During completion of Indian River	Indian River School District should obtain the	Implemented.
School District's construction program, it was	detail of adjustments from the Division of	
noted that the School District did not properly	Accounting, review the calculation for	
capitalize betterments for Sussex Central	accuracy, and then properly capitalize the	
High School and Indian River High School	betterments for Sussex Central High School	
projects in accordance with the Delaware	and Indian River High School projects.	
Fixed Asset Accounting Policy Manual.		
School District personnel were aware of the		
problem and were attempting to receive		
guidance from the Division of Accounting on		
the matter. The responses were not received		
until February 23, 2007. The School District		
received adjustments to capitalize these		
betterments from the Division of Accounting,		
but was not given any detail of the		
adjustments. The Division of Accounting's		
adjustments recommended capitalizing		
\$ 1,890,763 for Sussex Central High School		
and \$ 1,304,108 for Indian River High School		
as of June 30, 2006. Fixed assets were		
understated at June 30, 2006 for Indian River		
High School and Sussex Central High School.		

APPENDIX B

Status Key:

<u>Implemented</u> The concern has been addressed by implementing the original or an alternate corrective action.

Not Implemented The corrective action has not been initiated.

<u>Partially Implemented</u> The corrective action has been initiated but is not complete and the auditor has reason to believe management fully

intends to address the concern.

SCHEDULE OF CONSTRUCTION PROJECTS

APPENDIX C

Project Name	Fiscal Year	Original Funding Amount	De-auth Funding Amount	Total Project Funding to Date	Expended Current FY	Expended Prior FY's	Total Project Expended to Date	Total Unspent as of 06/30/07
New High School - South	2001	\$ 1,576,700	\$ -	\$ 1,576,700	\$ -	\$ 1,576,700	\$ 1,576,700	\$ -
	2002	11,237,167	88,050	11,325,217	-	11,325,217	11,325,217	-
	2003	8,465,100	-	8,465,100	20,757	8,444,343	8,465,100	-
	2004	2,946,200	-	2,946,200	12,797	2,933,403	2,946,200	-
New High School - North	2001	1,576,700	-	1,576,700	-	1,576,700	1,576,700	-
	2002	13,947,700	-	13,947,700	-	13,947,700	13,947,700	-
	2003	11,623,200	-	11,623,200	22,994	11,600,206	11,623,200	-
	2004	4,133,300	-	4,133,300	194,314	3,938,986	4,133,300	-
	2006	1,500,000	-	1,500,000	40,216	1,454,534	1,494,750	5,250
Frankford Elementary	2003	1,600,400	-	1,600,400	362,873	112,490	475,363	1,125,037
Renovations	2005	557,700	-	557,700	-	1,673	1,673	556,027
	2006	836,300	-	836,300	2,509	-	2,509	833,791
East Millsboro Elementary Renovations	2003 2005	1,694,500 915,200	- -	1,694,500 915,200	1,223,179 618,834	471,321 296,366	1,694,500 915,200	-
I	2006	1,372,800	-	1,372,800	1,178,233	163,432	1,341,665	31,135

SCHEDULE OF CONSTRUCTION PROJECTS - CONTINUED

APPENDIX C

		0-1-11	D4h	Total			Total	T-4-1
	Fiscal	Original Funding	De-auth Funding	Project Funding to	Expended	Expended	Project Expended	Total Unspent as
Project Name	Year	Amount	Amount	Date Date	Current FY	Prior FY's	to Date	of 06/30/07
Education Complex	2004	\$ 445,800	\$ -	\$ 445,800	\$ 241,624	\$ 204,176	\$ 445,800	\$ -
Renovations	2006	2,644,200	-	2,644,200	405,232	-	405,232	2,238,968
	2007	10,319,100	-	10,319,100	3,088	-	3,088	10,316,012
I and Dalainean Flamenton.	2004	002 000		902 900	420	902 290	902 900	
Lord Baltimore Elementary	2004	803,800	-	803,800	420	803,380	803,800	-
Renovations	2005	6,584,500	-	6,584,500	788,282	5,732,056	6,520,338	64,162
	2006	1,669,534	-	1,669,534	541,594	1,127,940	1,669,534	-
John M. Clayton Renovations	2004	1,435,800	-	1,435,800	1,282	34,204	35,486	1,400,314
	2005	1,465,500	-	1,465,500	-	4,397	4,397	1,461,103
	2006	5,862,100	-	5,862,100	17,586	-	17,586	5,844,514
		.==						
Georgetown Middle School	2004	677,800	-	677,800	-	677,800	677,800	-
Renovations	2005	12,572,000	-	12,572,000	2,475,366	9,826,699	12,302,065	269,935
Millsboro Middle School	2004	564,800	_	564,800	44,914	519,886	564,800	_
Renovations	2005	542,200	_	542,200	289,228	183,435	472,663	69,537
	2006	2,235,900	_	2,235,900	2,216,363		2,216,363	19,537
	2007	5,965,600		5,965,600	4,159,651	_	4,159,651	1,805,949
I	2007	3,903,000	-	3,903,000	4,139,031	-	4,139,031	1,003,949

SCHEDULE OF CONSTRUCTION PROJECTS - CONTINUED

APPENDIX C

Project Name	Fiscal Year	Original Funding Amount	De-auth Funding Amount	Total Project Funding to Date	Expended Current FY	Expended Prior FY's	Total Project Expended to Date	Total Unspent as of 06/30/07
Phillip Showell Elementary Renovations	2006	\$ 1,394,000	\$ -	\$ 1,394,000	\$ 69,472	\$ -	\$ 69,472	\$ 1,324,528
North Georgetown Elementary Roof Replacement	2007	1,153,400	-	1,153,400	1,313	-	1,313	1,152,087
Selbyville Middle School Roof Replacement	2007	1,812,400	-	1,812,400	65,921	-	65,921	1,746,479
Long Neck Elementary School Roof Replacement	2007	1,153,400	-	1,153,400	42,286	-	42,286	1,111,114
Totals		\$123,284,801	\$ 88,050	\$123,372,851	\$ 15,040,328	\$ 76,957,044	\$ 91,997,372	\$ 31,375,479

DISTRIBUTION OF REPORT

Copies of Indian River School District's Agreed-upon Procedures Attestation Engagement will be distributed by the Office of the Auditor of Accounts to the following public officials:

Executive Branch

The Honorable Ruth Ann Minner, Governor, State of Delaware

The Honorable Richard S. Cordrey, Secretary, Department of Finance

The Honorable Jennifer W. Davis, Director, Office of Management and Budget

The Honorable Valerie A. Woodruff, Secretary, Department of Education

Ms. Trisha Neely, Director, Division of Accounting

Mr. R. Thomas Wagner, State Auditor, Office of the Auditor of Accounts

Legislative Branch

The Honorable Russell T. Larson, Controller General, Office of Controller General

Other Elective Offices

The Honorable Joseph Biden, III, Attorney General, Office of the Attorney General The Honorable Jack Markell, Treasurer, State Treasurer's Office

Other

Ms. Dorcell S. Spence, Associate Secretary - Finance and Administrative Services Branch, Department of Education

Dr. Susan S. Bunting, Superintendent, Indian River School District